



**CITY OF**  
**SAGINAW**

**Michigan**

**Report on Expenditures of Federal Awards**

**For the Fiscal Year Ended  
June 30, 2005**



**REHMANN ROBSON**

*Certified Public Accountants*

**CITY OF SAGINAW, MICHIGAN**  
**REPORT ON EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2005**  
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**City of Saginaw, Michigan**  
**Schedule of Expenditures of Federal Awards**  
**For The Year Ended June 30, 2005**

Federal/Pass-Through Grantor Program Title	Federal CFDA Number	Federal or (Pass-Through) Grant Number	Amended Grant Amount	Expenditures and Transfers
<u>U.S. Department of Housing and Urban Development</u>				
Community Development Block Grant Entitlement	14.218	B03-MC-26-0028	3,052,000	\$ 1,933,350
Community Development Block Grant Entitlement	14.218	B04-MC-26-0028	3,016,000	137,915
Program Income				<u>573,022</u>
Total Block Grant Entitlements				<u>2,644,287</u>
Stewart McKinney Homeless Assistance	14.236	S03-MC-26-0028	117,000	16,692
Stewart McKinney Homeless Assistance	14.236	S04-MC-26-0028	111,640	<u>101,981</u>
Total Stewart McKinney Homeless Assistance				<u>118,673</u>
<u>HOME Program</u>				
Neighborhood Renewal Services Inc. - Note C	14.239	M02-MC-26-0212	184,500	48,439
City of Saginaw HOME programs	14.239	M02-MC-26-0212	1,045,500	<u>199,877</u>
Total HOME Program				<u>248,316</u>
<u>Section 108 Loans</u>				
Parking Deck No. 1 - Note A	14.248			<u>79,249</u>
Total U.S. Department of Housing and Urban Development				<u>3,090,525</u>
<u>U.S. Department of Justice</u>				
Community Policing Program	16.579	MI28DEP0060197	N/A	257,524
Local Law Enforcement - Note B	16.592			58,164
<u>Passed-Through The Federal Bureau of Investigation</u>				
Police Drug Investigation Overtime	16.579		N/A	<u>48,152</u>
Total U.S. Department of Justice				<u>363,840</u>

**City of Saginaw, Michigan**  
**Schedule of Expenditures of Federal Awards**  
**For The Year Ended June 30, 2005**

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**City of Saginaw, Michigan**  
**Schedule of Expenditures of Federal Awards**  
**For The Year Ended June 30, 2005**

Federal/Pass-Through Grantor Program Title	Federal CFDA Number	Federal or (Pass-Through) Grant Number	Amended Grant Amount	Expenditures and Transfers
<u>U.S. Department of Transportation</u>				
Passed-Through Michigan Department of Transportation				
5th and 6th at Janes Traffic Signal	UNKNOWN			\$ 19,029
Weiss St. at Michigan Traffic Signal	UNKNOWN			11,382
Owens St. STP funds	UNKNOWN			65,000
Passed-Through Saginaw County Sheriff Drive MI Safely	20.600		N/A	<u>14,262</u>
Total U.S. Department of Transportation				<u>109,673</u>
<u>Environmental Protection Agency</u>				
Brownfield Pilots Cooperative Agreements	66.811		179,800	<u>23,448</u>
<u>Federal Emergency Management Agency</u>				
Assistance to Firefighters	UNKNOWN			<u>84,616</u>
<b>TOTAL FEDERAL AWARDS</b>				<u><u>\$ 3,672,102</u></u>

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Saginaw, Michigan and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Note A - These Section 108 Loan Guarantee proceeds are to be used for the Parking Ramp No. 2 deck removal. This loan will be repaid from Community Development Block Grant entitlement funds.

Note B - These grant funds were used for the salaries and benefits of police patrol officers.

Note C - These funds were provided 100% to subgrantees.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

June 9, 2006

Honorable Mayor and  
Members of City Council  
City of Saginaw  
Saginaw, MI 48601

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Saginaw, Michigan*, as of and for the year ended June 30, 2005, which collectively comprise the *City of Saginaw, Michigan's* basic financial statements and have issued our report thereon dated June 9, 2006. The report on the aggregate discretely presented component units was qualified as a result of the exclusion of the Saginaw Economic Development Corporation, which is required to be included in the reporting entity for the *City of Saginaw, Michigan*, under general accepting accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the *City of Saginaw, Michigan's* internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the *City of Saginaw, Michigan's* ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2003-1, 2004-1 through 2004-10, and 2005-1 through 2005-5.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 2003-1, 2004-1 through 2004-7, 2005-1, and 2005-5 to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the *City of Saginaw, Michigan's* financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings and questioned costs as items 2004-7, 2204-10, 2005-2, 2005-3, and 2005-4.

This report is intended solely for the information and use of City management, the City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive, flowing style.



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM  
AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH OMB CIRCULAR A-133**

September 12, 2006

Honorable Mayor and  
Members of the City Council  
City of Saginaw, Michigan

**Compliance**

We have audited the compliance of the *City of Saginaw, Michigan* with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The *City of Saginaw, Michigan's* major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the *City of Saginaw, Michigan's* management. Our responsibility is to express an opinion on the *City of Saginaw, Michigan's* compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the *City of Saginaw, Michigan's* compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the *City of Saginaw, Michigan's* compliance with those requirements.

In our opinion, the *City of Saginaw, Michigan* complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2004-11, 2004-12, and 2005-6.

## **Internal Control Over Compliance**

The management of the *City of Saginaw, Michigan* is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the *City of Saginaw, Michigan's* internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted matters involving the internal control over compliance that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the *City of Saginaw, Michigan's* ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts and grants. The reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2003-1, 2004-1 through 2004-6, 2004-8, 2004-9, 2005-1, 2005-4, and 2005-5.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, the reportable conditions described above are considered to be material weaknesses.

## **Schedule of Expenditures of Federal Awards**

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Saginaw, Michigan, as of and for the year ended June 30, 2005, and have issued our report thereon dated June 9, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Saginaw, Michigan, basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The opinion on the aggregate discretely presented component units was qualified as a result of the exclusion of the Saginaw Economic Development Corporation, which is required to be included in the reporting entity for the City of Saginaw, Michigan, under general accepting accounting principles.

This report is intended solely for the information and use of the audit committee, management, others within the organization, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



CITY OF SAGINAW, MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2005

SECTION I - SUMMARY OF AUDITOR'S RESULTS

**Financial Statements**

Type of auditor's report issued: *Qualified*

Internal controls over financial reporting:  
Material weakness(es) identified?  X  yes   no  
Reportable condition(s) identified not  
considered to be material weaknesses?  X  yes   none reported

Noncompliance material to financial  
statements noted?   yes  X  no

**Federal Awards**

Internal Control over major programs:  
Material weakness(es) identified?  X  yes   no  
Reportable condition(s) identified not  
considered to be material weaknesses?   yes  X  none reported

Type of auditor's report issued on compliance  
for major programs: *Unqualified on compliance for Major Programs*

Any audit findings disclosed that are required to  
be reported in accordance with Circular A-133,  
Section 510(a)?  X  yes   no

Identification of Major Programs:

**CFDA Number**

**Name of Federal Program or Cluster**

14.218

Community Development Block Grant  
Entitlements

Dollar threshold used to distinguish  
between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee?   yes  X  no

**CITY OF SAGINAW, MICHIGAN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2005**

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**SECTION II – FINANCIAL STATEMENT FINDINGS**

**2003-1 Reportable Condition Considered to be a Material Weakness**

**Criteria:** A strong system of internal controls mandates that general ledger account balances are properly reconciled to a subsidiary ledger or other adequate supportive documentation on a periodic basis.

**Condition:** The City does not reconcile their general ledger accounts, such as cash, income tax revenue, and receivables, to supportive documentation during the year, which requires many significant adjustments to properly state the accounts at year end. The lack of reconciliations also affects the proper reporting of expenditures under the City's various grant agreements.

**Questioned Costs:** None

**Effect:** Many of the City's general ledger account balances became materially misstated during the year and were not properly reconciled until after June 30, 2003. This situation caused internally generated financial reports to be misstated and placed the City at risk of having assets misappropriated and not being detected by City officials within a reasonable period of time.

**Cause:** Many factors are responsible for this situation; however, the main reason was that the Controller's office does not have sufficient, competent personnel to perform these duties. There was also significant turnover in key accounting positions, particularly the Controller and Finance Director/Treasurer.

**Recommendation:** Timely reconciliations are essential to the fair presentation of financial information based on accounting records. We strongly recommend that the City review their current procedures and make appropriate alterations to those procedures to ensure that all general ledger account balances are properly reconciled in a timely manner throughout the year. These alterations should include determining the appropriate number of competent staff in the Fiscal Services Department and the allocation of duties within the Department.

**Status:** This matter has not been corrected and is still considered a finding for the year ended June 30, 2005.

**CITY OF SAGINAW, MICHIGAN**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**YEAR ENDED JUNE 30, 2005**

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**2004-1 Reportable Condition Considered to be a Material Weakness**

**Criteria:** A strong system of internal controls mandates that cash accounts are properly reconciled on a periodic basis.

**Condition:** The City is not preparing bank reconciliations in a timely manner. The bank reconciliation for June 30, 2004 for the pooled cash account was not fully completed until March 2005. When the reconciliation was complete the reconciling items included unidentified deposits and incorrect payroll transfers that remained unresolved.

**Questioned Costs:** None

**Effect:** When the City does not reconcile their cash accounts on a timely basis, the cash is more susceptible to fraud and misstatement. Also, incorrect payroll transfers cause insufficient funds to be available in the payroll account when checks are cashed and is resulting in the bank cashing the checks but charging a service fee for each check that is presented when there are insufficient funds.

**Cause:** Many factors are responsible for this situation; however, the main reason was that the Controller's office does not have sufficient, competent personnel to perform these duties.

**Recommendation:** We strongly recommend that the City review their current bank reconciliation procedures and make appropriate alterations to those procedures to ensure that all bank account balances are properly reconciled in a timely manner throughout the year. We also recommend that the procedures include the timely resolution and correction of reconciling items.

**Status:** This matter has not been corrected for the year ended June 30, 2005. The June 30, 2005 bank reconciliation was not completed until May 2006. In addition, the bank reconciliation included an unreconciled difference as of June 30, 2005. Also, we noted that the bank reconciliations are not reviewed upon completion. Therefore, we also recommend that all bank reconciliations be reviewed after they are completed.

**2004-2 Reportable Condition Considered to be a Material Weakness**

**Criteria:** A strong system of internal controls mandates that proper supporting documentation be maintained to provide for sufficient evidence of a transaction. Specifically, a receipt should support all cash and check collections by the City as a part of the records for all cash collection transactions. Also, other supporting documentation, such as remittance advices should be maintained for significant transactions to further support the amounts received into the City's records.

**CITY OF SAGINAW, MICHIGAN**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**YEAR ENDED JUNE 30, 2005**

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**Condition:** The City does not maintain printed receipts for all transactions and in many cases the supporting documentation for significant receipts is not maintained.

**Questioned Costs:** None

**Effect:** For many significant receipting transactions there was inadequate supporting documentation to provide sufficient evidence of the transaction reflected in the City's financial records. This results in significant time being expended to obtain any available supporting documentation when needed at a later time and increases the risk that any fraud or misstatement will not be detected in a timely manner.

**Cause:** The Treasurer's office does not have appropriate procedures in operation that identify inadequate documentation and, therefore, appropriate action was not taken to correct the situation.

**Recommendation:** We recommend that the current procedures be reviewed and appropriate alterations to those procedures be made to ensure that receipts are printed for all transactions and any supporting documentation that is available is included with the appropriate receipt.

**Status:** This matter has not been corrected and is still considered a finding for the year ended June 30, 2005.

**2004-3 Reportable Condition Considered to be a Material Weakness**

**Criteria:** A strong system of internal controls over cash requires that procedures be established to reconcile the cash receipts recorded in the accounting records to the physical receipts and that those items also are reconciled to the bank deposits. These procedures should involve a variety of individuals to provide for adequate segregation of duties within the cash receipting function to prevent any one individual from controlling all aspects of a cash receipt transaction. The proper segregation of duties and adequate procedures are essential to ensuring that receipts are properly reflected in the financial records and to reduce the risk of fraud.

**Condition:** During the fiscal year, the cash drawers in the Treasury Department were not consistently reconciled, on a daily basis, to the cash post listings produced by the cash receipt system. As a result, each type of tender from an individual cashier's drawer did not always agree to the breakdown of receipts by tender type in the cash post listing. In addition, the individual cashier was responsible for the reconciliation of their drawer to the cash post listing and the creation of a deposit ticket based on the daily cash receipts.

**Questioned Costs:** None

**CITY OF SAGINAW, MICHIGAN**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**YEAR ENDED JUNE 30, 2005**

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**Effect:** The cash drawer counts did not always agree to the cash post listing which resulted in inconsistencies in the financial records, the daily deposits and the cash receipt documentation. The lack of adequate segregation of duties and inadequate controls creates the opportunity for fraud.

**Cause:** The Treasurer's office did not have appropriate control procedures in operation to provide an appropriate segregation of duties and to identify this issue and, therefore, appropriate action was not taken to correct the situation.

**Recommendation:** We recommend that the current procedures be reviewed and appropriate alterations to those procedures be made to provide for the segregation of duties and increased controls within the cash receipts function.

**Status:** This matter has not been corrected and is still considered a finding for the year ended June 30, 2005.

**2004-4 Reportable Condition Considered to be a Material Weakness**

**Criteria:** A strong system of internal controls mandates that proper supporting documentation be maintained to provide for sufficient evidence of a transaction. Specifically, manual adjustments to the financial records should be supported by adequate documentation of the purpose, appropriateness and proper approval of each adjustment.

**Condition:** Manual adjustments to the financial records that were made by City staff throughout the fiscal year were not filed with adequate supporting documentation.

**Questioned Costs:** None

**Effect:** Information that is used to prepare and support manual adjustments is often needed at a later date and significant time and effort must be expended to recreate the documentation when the documentation is inadequate. With the changes in staffing in the Fiscal Services Department, there have been situations where the supporting documentation could not be reconstructed.

**Cause:** The policy of the Finance Director/Treasurer was that supporting documentation was not required to be maintained with a printed copy of the adjustment as long as the documentation could be recreated if needed.

**Recommendation:** We recommend that the Fiscal Services Department require that all manual adjustments be filed with adequate supporting documentation.

**Status:** This matter has not been corrected and is still considered a finding for the year ended June 30, 2005.

**CITY OF SAGINAW, MICHIGAN**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**YEAR ENDED JUNE 30, 2005**

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**2004-5 Reportable Condition Considered to be a Material Weakness**

- Criteria:** The maintenance of accurate, complete subsidiary records is necessary to provide sufficient detail of the transactions within the general ledger. Specifically, for those billings processed through the accounts receivable system, the system should provide accurate detail of the invoices outstanding by customer at any given point in time and this detail should directly support the receivable accounts reflected in the general ledger.
- Condition:** Accurate, itemized listings of outstanding invoices for City customers cannot be generated from the City's accounts receivable subsidiary module without specific manipulation of the data. As a result, a special query based on criteria defined by City staff is created to identify by customer, which billings are outstanding at a given point in time. Because these are custom written requests for information, there is the possibility that the criteria will not be properly defined to generate accurate information either by error or design.
- Questioned Costs:** None
- Effect:** Information that is used to reconcile the receivable general ledger balances may not be reflecting the true outstanding receivables and manual adjustments are made to these balances that are incorrect. In addition, the City cannot identify accurately what invoices are unpaid by customer and therefore, they cannot prepare a proper aging of those balances. This makes it difficult to pursue collection of the balances and to estimate the uncollectibility of any given invoice.
- Cause:** The cashiers in the Treasury Department are not properly trained on the correct manner to enter receipts into the system to apply payments against the proper invoice and/or they are simply deciding not to enter an invoice number with the receipt.
- Recommendation:** We recommend that the Treasury Department take all steps possible to have cashiers enter an invoice with the corresponding receipt. This may require additional training for the cashiers and additional procedures for entering amounts into the system but will result in the information contained in the accounts receivable module to be more accurate and also allow for the generation of system reports that were created by the software company rather than the custom reports.
- Status:** This matter has not been corrected and is still considered a finding for the year ended June 30, 2005.

**CITY OF SAGINAW, MICHIGAN**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**YEAR ENDED JUNE 30, 2005**

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**2004-6 Reportable Condition Considered to be a Material Weakness**

**Criteria:** The maintenance of accurate, complete subsidiary records is necessary to provide sufficient detail of the transactions within the general ledger. Specifically, the detailed records of billings that are not generated from the accounts receivable system should be maintained to support the receivable balance recorded in the general ledger.

**Condition:** Accurate, itemized listings of receivables that are not billed and tracked through the receivable module are not maintained for every receivable account and must be created at year end.

**Questioned Costs:** None

**Effect:** Information that is used to reconcile the receivable general ledger balances is created only at year end and may not be reflecting the true outstanding receivables; also manual adjustments are made to these balances that are incorrect. In addition, the age and collectibility of these accounts is not evaluated until that time, if at all.

**Cause:** The City does not have regular reconciliation procedures in place that require maintenance of these subsidiary records and regular review of the status of these receivables.

**Recommendation:** We recommend that the Fiscal Services Department take all steps possible to maintain subsidiary records for these receivable accounts on a regular basis.

**Status:** This matter has not been corrected and is still considered a finding for the year ended June 30, 2005.

**2004-7 Reportable Condition Considered to be a Material Weakness and Noncompliance**

**Criteria:** The State of Michigan requires that local municipalities that collect taxes on behalf of others distribute those collections in a timely manner. Failure to comply with this requirement needs to be reported by the auditor to the State of Michigan.

**Condition:** The City has not distributed tax collections that are received through the Tax Collection Agency Funds to the other units in a timely manner.

**Questioned Costs:** None

**Effect:** The City has tax collections, such as a 2001 payment in lieu of taxes, that have not yet been distributed to the proper units. The City Treasurer has also paid some units more in taxes than was collected on their behalf. The Treasurer did not identify these problems in the normal procedures and now the City is not in compliance with State of Michigan requirements for collections and disbursements to other units.

**CITY OF SAGINAW, MICHIGAN**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**YEAR ENDED JUNE 30, 2005**

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**Cause:** The Treasurer was not performing regular reconciliations of the tax collection agency accounts and also not associating disbursements to the other units with specific collections.

**Recommendation:** We recommend that the Treasury Department take all steps possible to reconcile the tax collection agency funds on a regular basis to determine the amounts to be returned to the City or distributed to the other governmental units. We also recommend that each disbursement to a unit be supported by specific documentation of the collections that have been received on the unit's behalf. The Treasury Department must closely monitor these funds to ensure that they return to compliance with State requirements.

**Status:** This matter has not been fully corrected for the year ended June 30, 2005. The payments in lieu of taxes have yet to be distributed to the applicable other units of government. However, the City appears to be in compliance for distributing their current year tax collections to other taxing entities.

**2004-8 Reportable Condition**

**Criteria:** To maintain accurate and complete accounting records and maintain adequate control of cash collections, the deposits and receipts of cash collections should occur in a timely manner.

**Condition:** The City has a few decentralized locations that make deposits of cash receipts directly at the bank and then provide the supporting documentation to the City Fiscal Services Department but these deposits are not reflected in the City's general ledger at the time of the transaction.

**Questioned Costs:** None

**Effect:** The City's general ledger does not accurately reflect the activity of the decentralized locations and this often results in unidentified deposits that must be resolved before the monthly bank reconciliations can be completed. The general ledger also does not reflect the timing of the deposits and there are often issues with the deposits being recorded in the incorrect time period.

**Cause:** When the decentralized locations provide the supporting documentation to the City Fiscal Services Department, these transactions are not immediately recorded in the City's general ledger and may not be recorded for several days or even weeks.

**Recommendation:** We recommend that the Fiscal Services Department implement procedures to ensure that these transactions are recorded in a timely manner that results in the general ledger accurately reflecting the activity of the decentralized locations.

**CITY OF SAGINAW, MICHIGAN**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**YEAR ENDED JUNE 30, 2005**

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**Status:** This matter has not been corrected and is still considered a finding for the year ended June 30, 2005.

**2004-9 Reportable Condition**

**Criteria:** All disbursements of City funds should be supported by adequate documentation and recorded within the City's general ledger.

**Condition:** The City paid a single invoice to a vendor twice using different methods of payments. The first payment was by check to the vendor and the second payment was through a wire transfer directly from the City's bank account to the vendor's account. The wire transfer was not recorded in the general ledger.

**Questioned Costs:** None

**Effect:** The City paid a vendor twice for the same invoice and did not have adequate accounting records to identify this situation until the bank reconciliations were finally completed and the wire transfer was identified.

**Cause:** The Treasurer's Department does not have adequate procedures in place for wire transfers that would result in the communication of these wire transfers to the Fiscal Services Department in a timely manner, and that proper documentation of the purpose and approval of the wire transfers would be maintained as a part of the accounting records in the Fiscal Services Department.

**Recommendation:** We recommend that the Treasury Department implement procedures to ensure that wire transfers are done only when proper documentation of purpose and approval has been prepared and that these procedures include communication of these transactions to the Fiscal Services Department for proper recording in the general ledger.

**Status:** This matter has not been fully corrected for the year ended June 30, 2005. While there were no specific instances noted of invoices being paid by both the Finance and Treasury Departments, there is still a lack of communication and formal process between the two departments for payments of items by wire transfer.

**2004-10 Reportable Condition and Noncompliance**

**Criteria:** The State of Michigan Uniform Accounting Procedures Manual issued by the Department of Treasury requires that the City use separate bank accounts for the current tax collections, ACT 51 road/street funds, bond issues and other restricted funds.

**CITY OF SAGINAW, MICHIGAN**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**YEAR ENDED JUNE 30, 2005**

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**Condition:** The City includes the cash of the Tax Collection Agency Funds, the Major and Local Street Funds, and restricted cash such as portions of the pension and drug forfeiture cash in the pooled cash account.

**Questioned Costs:** None

**Effect:** The City is not complying with the State Uniform Accounting Procedures Manual.

**Cause:** A decision was made by the City Treasurer to include these funds in the pooled account.

**Recommendation:** We recommend that the City Treasurer establish separate bank accounts for the Tax Collection Agency Funds, ACT 51 funds and any restricted cash.

**Status:** This matter has not been corrected and is still considered a finding for the year ended June 30, 2005.

**2005-1 Reportable Condition Considered to be a Material Weakness**

**Criteria:** A strong system of internal controls mandates that adequate segregation of duties exists over the general ledger posting process.

**Condition:** Several employees can create and post journal entries to the general ledger without separate approval. Specifically, there are Treasury Department employees that can make wire transfers of cash and then post these entries to the general ledger without prior, written approval of the entry.

**Questioned Costs:** None

**Effect:** Journal entries can be posted to the general ledger system, without any indications of review or approval.

**Cause:** The City does not have procedures in place that require review and approval of all journal entries prior to posting to the general ledger.

**Recommendation:** We recommend that the Fiscal Services Department develop procedures that require that all journal entries be reviewed prior to posting by a proper member of management.

**2005-2 Reportable Condition and Noncompliance**

**Criteria:** The pension ordinance requires that employees meet various requirements prior to retirement in order to receive pension benefits.

**CITY OF SAGINAW, MICHIGAN**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**YEAR ENDED JUNE 30, 2005**

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**Condition:** There were employees that retired during the year ended June 30, 2005 that did not meet the minimum requirements for retirement, but were still allowed to receive benefit payments. In addition, there are employees that retired prior to July 1, 2004 that also did not meet the requirements for retirement.

**Questioned Costs:** None.

**Effect:** The stated voluntary retirement age for a police officer/fire fighter to receive voluntary retirement is actuarial age fifty, as long as they have reached 20 years of credited service. On October 11, 2002, Deputy Police Chief O'Neal was allowed to retire with 16 years and 11 months of service. On January 21, 2005 Deputy Police Chief Booker was allowed to retire with 19 years and 1 month of service. The stated service credit requirements are that in no case shall less than 10 days of service rendered be credited as a month of service; nor shall less than 10 months of service in any calendar year rendered be credited as a year of service; nor shall more than one year of service be credited any member for all service rendered in any calendar year. On January 2, 1996, Police Chief Perez was credited with 5 years of service upon payment to the pension system of 5% of his full-time compensation multiplied by the five years of service time. On December 28, 2002, Assistant Fire Chief Garcia was credited with 3 years and 5 months of service upon payment to the pension system of 5% of his full-time compensation multiplied by the 3 years and 5 months of service time. On August 14, 2004, Police Chief Pussehl was credited with 7 years and 4 months of service time upon payment to the pension system of \$38,459.99. On January 21, 2005, Deputy Police Chief Booker was credited with 11 months of service upon payment to the pension system of \$4,441.33. Since the aforementioned individuals did not meet the pension ordinance requirements, amendments to the ordinance were required to have been made by the City Council. However, no such action appeared to have been taken by the Council during the year ended June 30, 2005.

**Cause:** The City allowed employees to receive benefits without ensuring that all applicable ordinance changes were made.

**Recommendation:** We recommend that the City Council take the necessary steps to ensure that the ordinance is updated to allow these retirements. Also, we recommend that no payments are made to future retirees without the proper assurance that all requirements have been met.

**2005-3 Reportable Condition and Noncompliance**

**Criteria:** The City must comply with state statutes regarding the investment of the public funds.

**Condition:** There were investments held during the year ended June 30, 2005 that did not comply with these state statutes.

**CITY OF SAGINAW, MICHIGAN**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**YEAR ENDED JUNE 30, 2005**

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**Questioned Costs:** None.

**Effect:** The State has determined that investments which have been held by the City for over twenty years, are in violation of State investment guidelines. In addition, the City purchased insurance policies on key City employees to be held as long-term investments during the year ended June 30, 2005. These investments are held in the Public Employee Healthcare Internal Service Fund; however they are not allowable investments of the fund.

**Cause:** The City purchased the insurance policies without first establishing a public employee health care trust fund, thereby causing these investments to be unauthorized.

**Recommendation:** We recommend that the City establish a public employee health care trust in accordance with the Public Employee Retirement System Investment Act, PA 314 of 1965, MCL 38.1132 to 38.1140. No further action is recommended for the other unauthorized investments of the City because they have matured during the year ended June 30, 2006.

**2005-4 Reportable Condition and Noncompliance**

**Criteria:** OMB Circular A-87 requires that all indirect costs charged to grant funded programs be in accordance with central service cost allocation plans approved by the cognizant agency or, in cases where such plans are not subject to approval, in accordance with the plan on file.

**Condition:** The City is currently charging grant-funded activities for indirect costs without formal, approved cost allocation plans.

**Questioned Costs:** None.

**Effect:** The City is requesting reimbursement for potentially unallowable indirect costs, specifically for information management services for which there is no formal plan.

**Cause:** The City has charged grant-funded activities, specifically those in the Community Development Block Grant Fund, based upon the methodology developed during the budgeting process without having this method approved by the grantor agency.

**Recommendation:** We recommend that the City establish procedures to ensure that formal cost allocation plans are approved by the various grantor agencies prior to grant-funded activities being charged for any indirect costs.

**CITY OF SAGINAW, MICHIGAN**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**YEAR ENDED JUNE 30, 2005**

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**2005-5 Reportable Condition Considered to be a Material Weakness**

**Criteria:** A strong system of internal controls mandates that the City employ sufficient properly trained staff to ensure accurate reporting of the City's financial position during the year.

**Condition:** The City does not currently have an adequate number of properly trained staff within the Fiscal Services Department to ensure that the City's financial position can be reasonably and accurately determined during the fiscal year.

**Questioned Costs:** None

**Effect:** Many of the City's general ledger account balances become materially misstated during the year, which places the City at serious risk of having assets misappropriated. In addition, this situation places the City's management and council at severe disadvantages in the administration of the City's finances and budget. Also, this has caused management-level employees in the Fiscal Services Department to be too active in the day-to-day accounting function to perform their necessary oversight activities, thereby creating a lack of segregation of duties.

**Cause:** The primary reason for this situation is that the Fiscal Services Department does not have sufficient, competent personnel.

**Recommendation:** We strongly recommend that the City review the components of the current Fiscal Services staff and make the appropriate necessary steps to ensure that all accountants receive appropriate training to meet the requisite competency levels.

**CITY OF SAGINAW, MICHIGAN**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**YEAR ENDED JUNE 30, 2005**

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**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

Findings 2003-1, 2004-1 through 2004-6, 2004-8, 2004-9, 2005-1, 2005-4, and 2005-5 are also considered findings for all major programs and are reportable conditions that are considered to be material weaknesses related to internal controls over federal awards.

**2004-11 Failure to Complete and Submit Single Audit in a Timely Manner**

**Grantor:** All **CFDA #:** All

**Award Name:** All

**Criteria:** The Office of Management and Budget Circular A-133 requires recipients of federal funds to have their data collection form and the reporting package submitted to the Federal Audit Clearinghouse within the earlier of 30 days after the receipt of the auditor's report or nine months after the end of audit period.

**Condition:** For the year ended June 30, 2004, the City was not prepared to begin the single audit within the earlier of the two criteria given. The single audit process did not begin until after the nine month period had already expired.

**Questioned Costs:** None

**Effect:** The City is not in compliance with The Office of Management and Budget Circular A-133.

**Cause:** Many factors are responsible for this situation, however, the main reason was that the Controller's office does not have sufficient, competent personnel to perform duties required for the City to be prepared in time to meet the criteria.

**Recommendation:** We recommend that the City implement whatever procedures or reorganization it deems necessary to ensure that all grant program activities are properly reconciled on a periodic basis throughout the year so that the single audit can be completed in a timely manner.

**Status:** This matter has not been corrected and is still considered a finding for the year ended June 30, 2005 because the single audit for 2005 is also late.

**2004-12 Community Block Grant Entitlements Expenditures**

**Grantor:** U.S. Department of Housing and Urban Development **CFDA #:** 14.218

**Award Name:** Community Block Grant Entitlements

**CITY OF SAGINAW, MICHIGAN**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**YEAR ENDED JUNE 30, 2005**

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**Criteria:** Office of Management and Budget Circular No. A-87, *Cost Principles for State, Local and Indian Tribal Governments*, indicates that for expenditures to be allowable under Federal awards, costs must be necessary and reasonable for proper and efficient performance and administration of Federal awards and be adequately documented. In addition, City internal control procedures require that there be proper support, documentation and approval of expenditures.

**Condition:** During the fiscal year ended June 30, 2004, the City charged several expenditures to the Community Entitlement Block Grant program that did not have adequate supportive documentation, such as a vendor invoice. In addition, some expenditures did not have the appropriate approvals indicated from either the department or the Controller's office staff. In addition, there were amounts paid for subscriptions to magazines/newspapers, which do not appear to be necessary and reasonable for proper and efficient performance and administration of the CDBG program, and were therefore unallowable.

**Questioned Costs:**

No vendor invoice	\$ 301
Lack of approval	10,695
Unallowable	<u>54</u>
Total questioned costs	<u>\$ 11,050</u>

**Effect:** Contractors were paid with no approval and in some cases no invoice. Also, some expenditures did not meet the compliance requirements for the Community Entitlement Block Grant program.

**Cause:** Many factors are responsible for this situation, however, the main reason for was that the CDBG program did not have an individual designated as the supervisor for oversight of the program.

**Recommendation:** We recommend that the City implement procedures to ensure that all grant program activities are properly documented and supported with formal vendor invoices, which are approved by both the proper grant program personnel, such as the Development Director, and Controller's office personnel. In addition, we recommend that the City implement procedures to ensure that all amounts charged to grant programs are for allowable expenditures.

**Status:** This matter has not been fully corrected for the year ended June 30, 2005. All expenditures tested for 2005 appeared to be for allowable activities. There was one expenditure in the amount of \$2,993.50 that was a re-issue of a previous check, which did not appear to be adequately supported with a vendor invoice. In addition there were two expenditures that were not properly approved by personnel in the Controller's office. No costs were questioned for the year ended June 30, 2005.

**CITY OF SAGINAW, MICHIGAN**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**YEAR ENDED JUNE 30, 2005**

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**2005-6 Allocation of Payroll Expenditures**

**Grantor:** U.S. Department of Housing and Urban Development **CFDA #:** 14.218

**Award Name:** Community Development Block Grant Entitlements

**Criteria:** Office of Management and Budget Circular No. A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, requires that when employees work on multiple activities / are charged to both federally funded and non-federally funded cost centers, the distribution of their salaries or wages must be supported by personnel activity reports or a statistical sampling system that has been approved by the cognizant Federal agency.

**Condition:** During the fiscal year ended June 30, 2005, a portion of the City Manager's salary and benefits were charged to the CDBG Entitlement program. However, for the 6/16/05 payroll, the amounts charged did not agree to the amounts to be charged based on his timesheet.

**Questioned Costs:** None

**Effect:** Payroll charges to the federal program were not charged based upon the Office of Management and Budget Circular No. A-87, *Cost Principles for State, Local, and Indian Tribal Governments*.

**Cause:** Many factors are responsible for this situation, however, the main reason for was that the Community Entitlement Block grant program did not have an individual designated as the supervisor for oversight of the program. Also, the Controller's office did not have sufficient staff to perform a review of payroll charged to the grant programs in the general ledger.

**Recommendation:** We recommend that the City implement procedures to ensure that only actual time worked on federal programs is charged to the grant.

**CITY OF SAGINAW, MICHIGAN**  
**SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

**YEAR ENDED JUNE 30, 2005**

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**FINANCIAL STATEMENT FINDINGS**

The finding listed as 2003-1 has also been issued as a financial statement finding for the fiscal years ended June 30, 1999 through 2004. The findings listed as 2004-1 through 2004-10 have also been issued as financial statement findings during the fiscal year ended June 30, 2004.

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**2004-13 HOME Investment Partnerships Expenditures**

**Grantor:** U.S. Department of Housing and Urban Development **CFDA #: 14.239**

**Award Name:** HOME Investment Partnerships Program

**Criteria:** Office of Management and Budget Circular No. A-87, *Cost Principles for State, Local and Indian Tribal Governments*, indicates that for expenditures to be allowable under Federal awards, costs must be necessary and reasonable for proper and efficient performance and administration of Federal awards and be adequately documented. In addition, City internal control procedures require that there be proper support, documentation and approval of expenditures.

**Condition:** During the fiscal year ended June 30, 2004, the City charged expenditures to the HOME Investment Partnerships Program that did not have adequate supportive documentation, such as a vendor invoice. In addition, the amounts paid for several expenditures did not match the Certification of Inspection amount (amount approved by the Home grant department) or the vendor invoice amount (one invoice had no amount indicated to be paid).

**Questioned Costs:**

No vendor invoice	\$ 164
Amount paid did not match Certification of Inspection approved amount	29,422
Amount paid did not match the vendor invoice amount	<u>10,378</u>
Total questioned costs	<u>\$ 39,964</u>

**Effect:** Contractors were paid with no approval and in some cases no invoice. Also, some expenditures did not meet the compliance requirements for the Community Entitlement Block Grant program.

**CITY OF SAGINAW, MICHIGAN**

**SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

**YEAR ENDED JUNE 30, 2005**

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**Cause:** Many factors are responsible for this situation, however, the main reason for was that the Home program did not have an individual designated as the supervisor for oversight of the program.

**Recommendation:** We recommend that the City implement procedures to ensure that all grant program activities are properly documented and supported with formal vendor invoices, which are approved by both the proper grant program personnel, such as the Development Director, and Controller's office personnel.

**Status:** This matter has been corrected and is not considered a finding for this program for the year ended June 30, 2005.

**2004-14 Allocation of Payroll Expenditures**

**Grantor:** U.S. Department of Housing and Urban Development **CFDA #:** 14.218 and 14.239

**Award Name:** Community Development Block Grant Entitlements and HOME Investment Partnerships Program

**Criteria:** Office of Management and Budget Circular No. A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, requires that when employees work on multiple activities / are charged to both federally funded and non-federally funded cost centers, the distribution of their salaries or wages must be supported by personnel activity reports or a statistical sampling system that has been approved by the cognizant Federal agency.

**Condition:** During the fiscal year ended June 30, 2004, the City did not allocate all payroll charges for CDBG/HOME employees to federal programs based on actual time worked on the federal program. There were several instances for the pay periods tested (9/5/03-9/18/03, 12/12/03-12/25/03, and 3/5/04-3/18/04) where the hours per the employee timesheet did not agree to the hours charged per the general ledger. In addition, PTO and holiday time was not charged to the grant on a consistent basis.

**Questioned Costs:** None

**Effect:** Payroll charges to the federal program were not charged based upon the Office of Management and Budget Circular No. A-87, *Cost Principles for State, Local, and Indian Tribal Governments*.

**Cause:** Many factors are responsible for this situation, however, the main reason for was that the Community Entitlement Block grant and Home program did not have an individual designated as the supervisor for oversight of the program. Also, the Controller's office did not have sufficient staff to perform a review of payroll charged to the grant programs in the general ledger.

**CITY OF SAGINAW, MICHIGAN**  
**SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**  
**YEAR ENDED JUNE 30, 2005**

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**Recommendation:** We recommend that the City implement procedures to ensure that only actual time worked on federal programs is charged to the grant.

**Status:** This matter has been corrected and is not considered a finding for this program for the year ended June 30, 2005.